

MEMORANDUM

TO: City Council

FROM: John J. Caulfield, City Manager
Sonja Springer, Finance Director

DATE: July 6, 2009

SUBJECT: **Quarterly Financial Report & Budget Balancing Strategy
January through March 2009**

Overview

This report is intended to provide an overview of financial activity that has taken place from January 1, 2009 through March 31, 2009. The City's finances are divided into three key components: General Government Funds, Capital Improvement Funds and Utility Funds. The financial report focuses mainly on activity incurred in the following funds: General, Street and Recreation as well as the City's Capital Improvement Funds, Utility Funds, and Ending Fund Balances/Reserves.

The Summary of Sources and Uses (Attachment A) captures financial activity by fund through March 2009. This report includes all of the City's 19 funds, as well as the beginning and ending fund balances of each fund and historical detail back to 2006. The report also reflects the 2009 budget amendments that were considered and adopted by the Council on June 15, 2009.

This report also includes an analysis of the action strategies and preventative approaches that have been implemented to manage our finances in order to mitigate the downturn in our revenue collections for 2009 and 2010 caused by the faltering economy. The attached spreadsheet (Financial Forecast – General Fund Financing Balancing Strategy 2009-2014) presents by department the reductions we have already put in place – our General Fund control budget.

Also attached to this financial report is a Staffing Analysis for Finance and Customer Service that has analyzed workload duties for 10 Administrative Services Department positions. The report gathered and analyzed comparative staffing and workload data from other cities that perform similar finance and customer service related functions. The report concludes that the City of Mountlake Terrace has lower workloads per employee in Administrative Services compared to other cities and that two positions can be eliminated within our Administrative Services Department.

In summary, by taking the steps in this report, the City is holding its own financially and we are meeting our bottom-line financial and operational objectives through first quarter 2009. This reflects sound financial and management policies practiced by the City. This will allow the City to ensure that basic municipal services that are provided to our citizens are not reduced and ensures the City's financial integrity and stability.

Economic Conditions

There is no doubt that these are unprecedented times for our economy, both locally and nationally. Economic activity continues to weaken across the country, the result of a recession that began in late 2007 and is expected to last at least through 2009, perhaps longer.

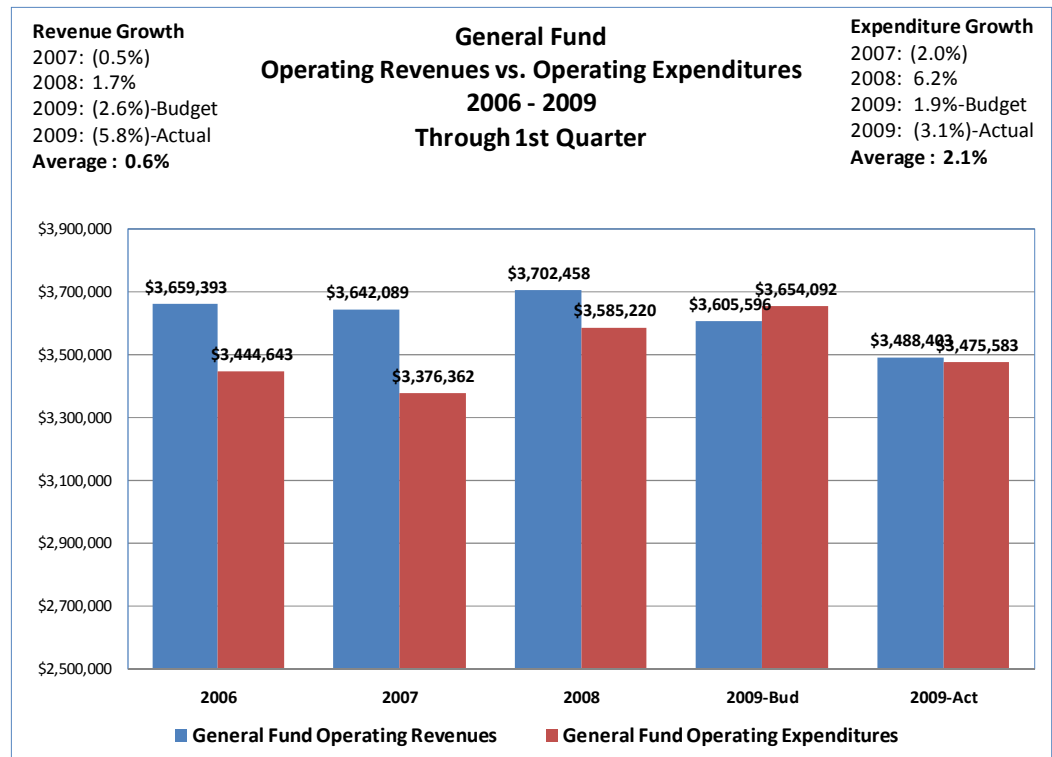
The result has been massive layoffs, growing level of unemployment, slumping home prices, a slowdown in consumer spending, a continued deterioration of consumer confidence, and tight credit markets. How this saga will unfold this year and into 2010 is still unclear. The downside is that even when the recession ends, it will be some time before employment, sales and credit return to pre-2007 levels.

Cities and counties throughout the country are feeling the impact of the situation. Mountlake Terrace is no exception. Despite the current economic volatility and recession we have been able to maintain services at levels the community has come to expect and appreciate. We have also been able to go above basic services and expand our street construction and economic development programs so that we are well-positioned to accommodate redevelopment and revitalization opportunities in the community when the recession ends.

These successes aside, we began implementing steps last year to mitigate the impact to ensure we meet our financial objectives in 2009 just as we did in 2008. These steps will continue indefinitely. At this time, no services to our residents will need to be reduced.

General Government Funds

General Government Funds, which accounts for municipal services such as police, jail, court, fire, EMS, streets, parks, recreation, land use and zoning, planning, development services, debt service, and general administration such as finance, information services and community outreach and

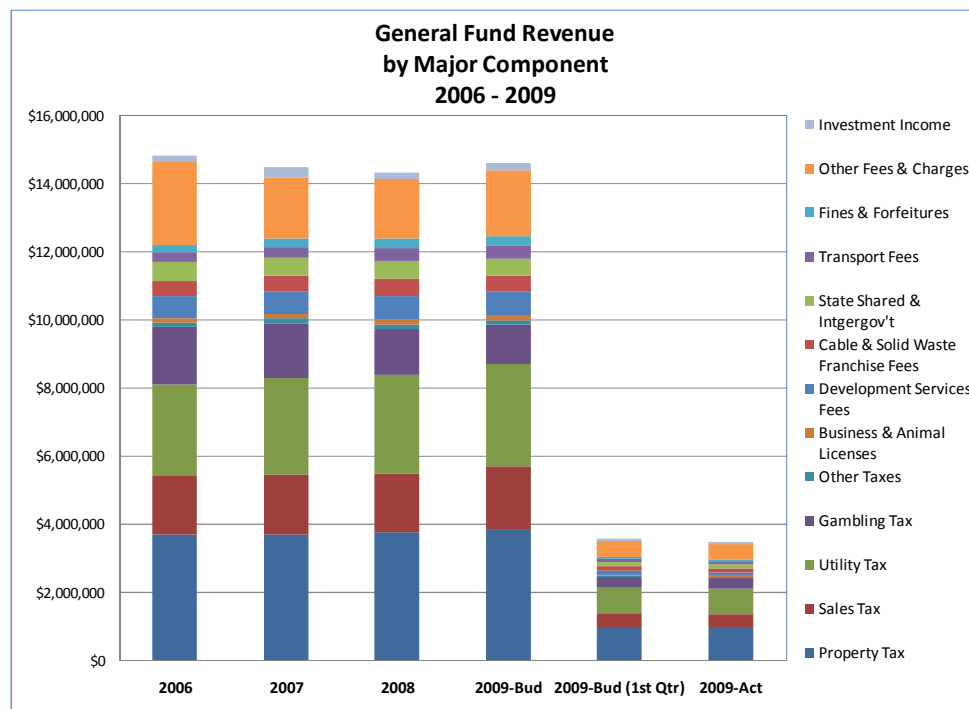


information consists of the following funds: General; Street Operations; Recreation; Debt Service; Strategic Reserve; Fleet Management; Hotel/Motel Tax; Solid Waste Service; and Accumulated Leave Reserve.

Resources by Fund General Government	2009						Change (bud vs. act)	
	2006	2007	2008	Control Budget			\$	%
				Annual	1st Qtr	Actual		
Beginning Fund Balances	\$ 9,464,261	\$ 9,329,323	\$ 7,613,507	\$ 6,740,438	\$ 6,740,438	\$ 6,740,438	\$ -	0.0%
General								
Property Tax	3,722,059	3,722,182	3,787,483	3,887,641	971,910	993,056	21,146	2.2%
Sales Tax	1,704,801	1,756,581	1,712,184	1,825,705	445,844	382,866	(62,978)	-14.1%
Utility Tax	2,700,443	2,823,206	2,897,238	3,005,386	751,347	756,225	4,879	0.6%
Gambling Tax	1,681,265	1,609,601	1,338,964	1,156,587	306,496	303,668	(2,828)	-0.9%
Other Taxes	141,588	138,687	138,814	138,657	34,664	21,586	(13,078)	-37.7%
Business & Animal Licenses	127,184	139,758	151,698	143,338	35,835	32,222	(3,613)	-10.1%
Development Services Fees	638,875	661,820	692,908	688,857	111,129	109,454	(1,675)	-1.5%
Cable & Solid Waste Franchise Fees	431,546	466,090	488,962	451,672	112,918	125,005	12,087	10.7%
State Shared & Intergov't	569,274	521,996	532,413	499,764	124,941	104,780	(20,161)	-16.1%
Transport Fees	270,067	311,483	377,845	400,000	100,000	79,127	(20,873)	-20.9%
Fines & Forfeitures	242,439	263,760	295,775	260,100	65,025	56,396	(8,629)	-13.3%
Other Fees & Charges	2,411,950	1,769,874	1,734,268	1,941,950	485,488	463,881	(21,607)	-4.5%
Investment Income	211,529	307,416	190,364	240,000	60,000	60,137	137	0.2%
Total General Fund Operating Revenues	14,853,020	14,492,454	14,338,916	14,639,657	3,605,596	3,488,403	(117,193)	-3.3%
Street Operating	367,879	379,475	358,187	368,242	84,696	78,139	(6,557)	-7.7%
Recreation	2,583,003	2,502,136	2,696,972	2,872,100	660,583	654,195	(6,388)	-1.0%
Debt Service	201,204	192,197	168,371	3,000	750	2,953	2,203	293.7%
Total General Govt Operating Revenues	18,005,106	17,566,262	17,562,446	17,882,999	4,351,624	4,223,690	(127,934)	-2.9%
Other Financing Sources								
Strategic Reserve	35,297	43,246	35,556	40,000	11,819	11,819	-	0.0%
Fleet Management	769,249	775,957	825,413	749,593	187,398	140,479	(46,919)	-25.0%
Hotel/Motel Tax	26,775	21,985	27,072	22,207	5,521	5,521	-	0.0%
Solid Waste Service	17,500	17,500	-	17,500	4,375	4,375	-	0.0%
Accumulated Leave Reserve	29,337	21,972	10,226	11,600	2,900	2,934	34	1.2%
Other Fin Sources (all Gen Govt)	2,219,121	1,777,345	1,930,788	2,120,297	493,949	443,980	(49,969)	-10.1%
Total Other Financing Sources	3,097,279	2,658,005	2,829,055	2,961,197	705,963	609,108	(96,855)	-13.7%
Total All General Government Funds	\$30,566,646	\$29,553,590	\$28,005,008	\$27,584,634	\$11,798,025	\$11,573,236	\$ (224,789)	-1.9%

Revenues

Overall, General Fund operating revenues (\$3,488,403) collected in first quarter 2009 are below the control budget estimate (\$3,605,596) by \$117,193 or 3.3%. Compared with 2008 collections (\$3,702,458), operating revenues have decreased \$214,055 or 5.8%, which further illustrates the impact of the faltering economy.



However, total general government sources (\$11,573,236) are below the control budget estimate (\$11,798,025) by \$224,789 or 1.9%. The below collection estimate in Fleet Management is

reflective of lower than anticipated gas prices meaning operating department payments to this program have also been reduced. The lower than anticipated collections under other financial sources is a reflection of a lower than projected General Fund transfer savings to the Street Operating and Recreation Funds.

Expenditures

General Fund operating expenditures (\$3,475,583) during first quarter 2009 are below the control budget estimate (\$3,654,092) by \$178,509 or 4.9%, which offsets the lower than anticipated general fund revenue collections. However, total general government expenditures (\$5,093,350) are below the control budget estimate (\$5,714,813) by \$502,167 or 9.0%, which also offsets the lower than anticipated general government revenue collections. The savings, which are above and beyond the preventative measures (e.g., elimination of all discretionary spending such as supplies, travel, training, overtime, equipment, temporary help, non-essential positions) are attributable to the financial prudence being practiced by our department directors and their staff.

Expenditures by Fund	2009						Change (bud vs. act)	
	2006	2007	2008	Control Budget			\$	%
				Annual	1st Qtr	Actual		
General Government								
General								
City Council	incl with CM	\$ 96,659	\$ 104,753	\$ 103,130	25,783	\$ 24,468	\$ (1,315)	-5.1%
City Manager	707,667	671,925	719,173	714,022	223,506	215,650	(7,856)	-3.5%
Administrative Services	1,269,046	1,374,134	1,460,074	1,342,741	335,685	328,449	(7,236)	-2.2%
Municipal Court	708,455	673,956	710,570	736,478	184,120	141,378	(42,742)	-23.2%
Police	4,285,179	4,527,696	5,171,253	5,052,384	1,338,882	1,343,905	5,023	0.4%
Fire	2,156,172	2,224,941	2,289,888	2,413,953	651,767	639,837	(11,930)	-1.8%
Community & Economic Development	1,437,758	1,034,661	1,038,427	1,048,743	262,186	226,035	(36,151)	-13.8%
Park Services	772,235	688,783	752,220	585,138	146,285	144,243	(2,042)	-1.4%
Property Management	1,074,654	910,583	860,196	912,834	228,209	185,291	(42,918)	-18.8%
Oper Transfer Out-Debt Svc	336,489	296,450	310,157	-	-	-	-	n/a
Oper Transfer Out-Streets	542,851	247,918	476,132	476,042	119,011	91,662	(27,349)	-23.0%
Oper Transfer Out-Recreation	419,854	511,617	497,363	369,642	92,411	88,415	(3,996)	-4.3%
Oper Transfer Out- Rec Debt Svc	185,000	185,000	185,000	185,000	46,250	46,250	-	0.0%
Total General Fund	13,895,360	13,444,323	14,575,206	13,940,107	3,654,092	3,475,583	(178,509)	-4.9%
Operating Surplus/(Deficit)	957,660	1,048,131	(236,290)	699,550	(48,496)	12,820	61,316	-126.4%
Street Operating	905,215	808,987	825,968	873,969	218,492	176,650	(41,842)	-19.2%
Recreation	3,208,442	3,202,052	3,333,259	3,474,742	868,686	781,483	(87,203)	-10.0%
Debt Service	823,478	822,448	805,778	479,613	607	607	-	0.0%
Total General Government Funds	18,832,495	18,277,810	19,540,211	18,768,431	4,741,876	4,434,323	(307,553)	-6.5%
Other Financing Uses								
Fleet Management	628,542	763,253	823,547	1,802,169	450,542	255,929	(194,613)	-43.2%
Hotel/Motel Tax	19,302	25,000	25,000	29,833	-	-	-	n/a
Solid Waste Service	25,199	14,231	21,097	26,426	10,376	10,376	-	0.0%
Accumulated Leave Reserve	-	500,000	59,568	-	-	-	-	n/a
Other Fin Uses (all Gen Govt)	1,744,110	2,359,789	795,147	1,096,074	392,722	392,722	-	0.0%
Other Financing Uses	2,417,153	3,662,273	1,724,359	2,954,502	853,640	659,027	(194,613)	-22.8%
Total All General Government Funds	\$21,249,648	\$21,940,083	\$21,264,570	\$21,722,933	\$ 5,595,517	\$ 5,093,350	\$ (502,167)	-9.0%

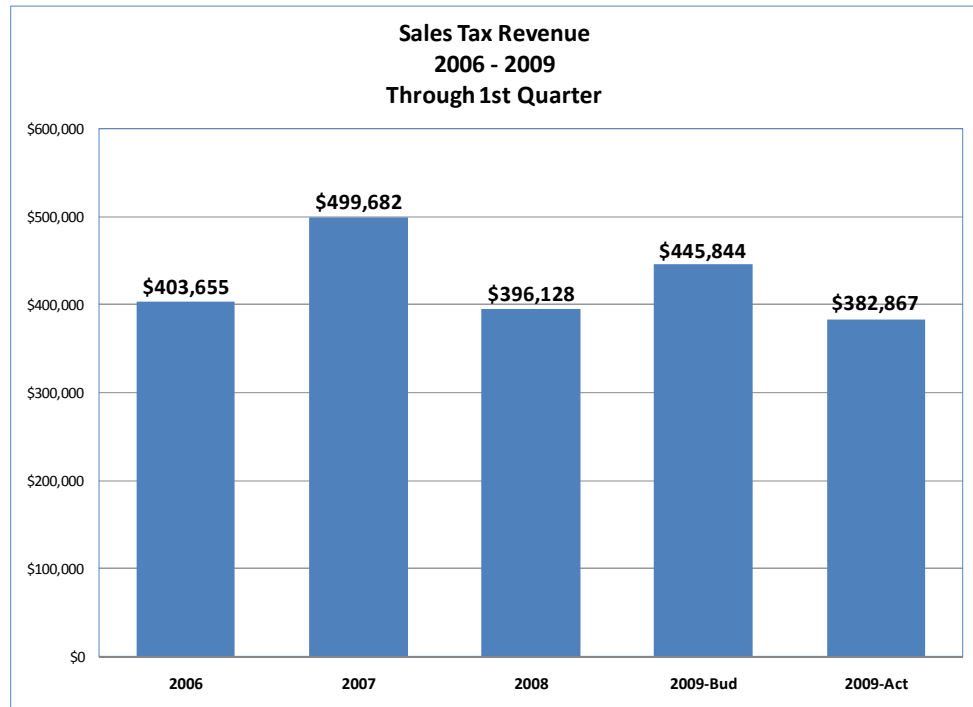
All city departments stayed within their allocated 2009 control budgets, with the exception of Police (due primarily to LEOFF 1). Operating transfers to the Street Operating Fund and Recreation Fund are below budget, reflecting again the financial prudence being practiced by department directors and their staff.

Compared with 2008 general fund expenditure activity (\$3,585,220), operating expenditures have decreased \$109,637 or 3.1%. The result is that while our 2009 revenue collections have slowed compared to budget and 2008 collections, we have put in measures that are working to ensure: 1) we live within our means; 2) we maintain an positive operating surplus (no use of one-

time funds for ongoing programs and services); 3) we attain our bottom-line financial objectives to ensure the financial integrity and stability of the City; and 4) we ensure that basic municipal services that are provided to our citizens are not reduced.

Local Retail Sales Tax

The following graph and table summarize local retail sales tax revenue. Sales tax collections lag two months. For February sales activities, the City accrues sales tax revenue in March, and the City receives cash in April.



Actual sales tax proceeds through March 2009 total \$382,867, which is \$62,977 or 14.1%

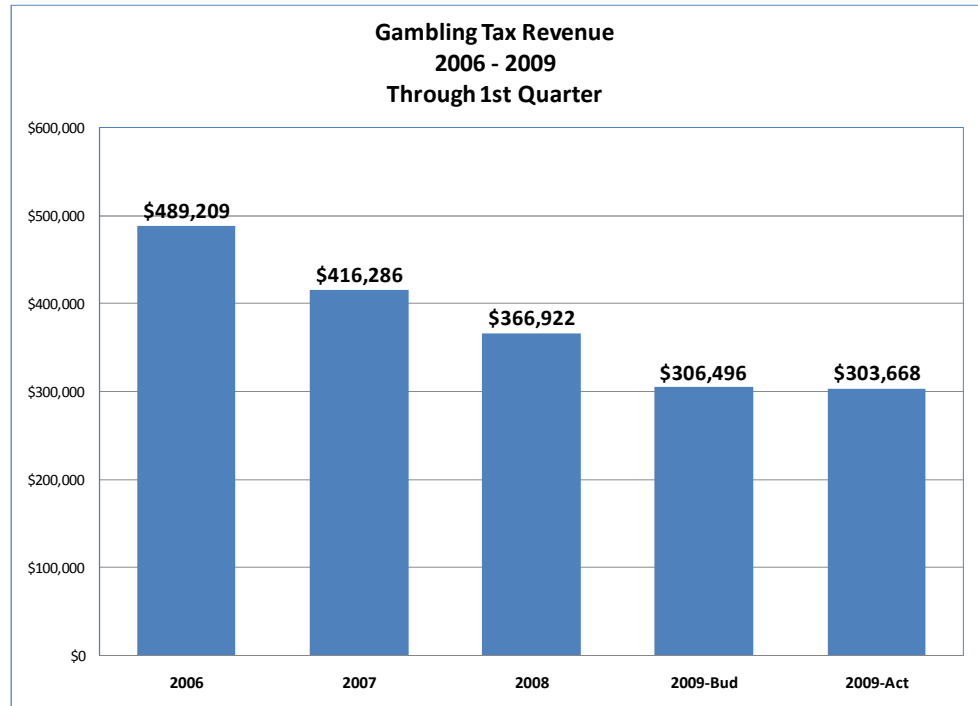
below the March budget estimate (\$445,844). Compared to first quarter 2008 (\$396,128), sales tax revenues have decreased \$13,261 or 3.3%. Our sales & use tax revenue estimate for 2009 totals \$1,825,705, though we now estimate this year's end collection to be approximately \$1,500,000 to \$1,600,000. However, so long as we maintain our expenditure controls, we should be able to mitigate this revenue slowdown without impacting programs.

Sales Tax Month	2006	2007	2008	2009		Change (bud vs. act)	
				Budget	Actual	\$	%
January	\$ 137,110	\$ 156,986	\$ 106,774	\$ 142,825	\$ 140,444	\$ (2,381)	-1.7%
February	123,338	194,488	111,126	150,894	116,477	(34,417)	-22.8%
March	143,207	148,208	178,228	152,125	125,946	(26,179)	-17.2%
April	131,338	130,211	133,987	138,938			
May	138,482	123,979	123,005	136,499			
June	151,226	161,593	153,441	169,838			
July	138,361	126,952	139,119	138,984			
August	140,179	133,653	132,166	142,954			
September	155,523	163,049	155,999	172,894			
October	129,513	134,858	137,937	140,459			
November	128,789	125,128	134,084	143,383			
December	187,735	157,476	206,307	195,911			
Total	\$ 1,704,801	\$ 1,756,581	\$ 1,712,173	\$ 1,825,704	\$ 382,867	\$ (62,977)	-14.1%

Gambling Tax

The following graph summarizes gambling tax revenue collections for first quarter 2006 through 2009. Through first quarter 2009, gambling tax collections totaled \$303,668, which is \$2,828, or 0.9% below the control budget estimate (\$306,496).

Compared to first quarter 2008 activity (\$366,922), gambling tax collections have decreased \$63,254, or 17.2%.

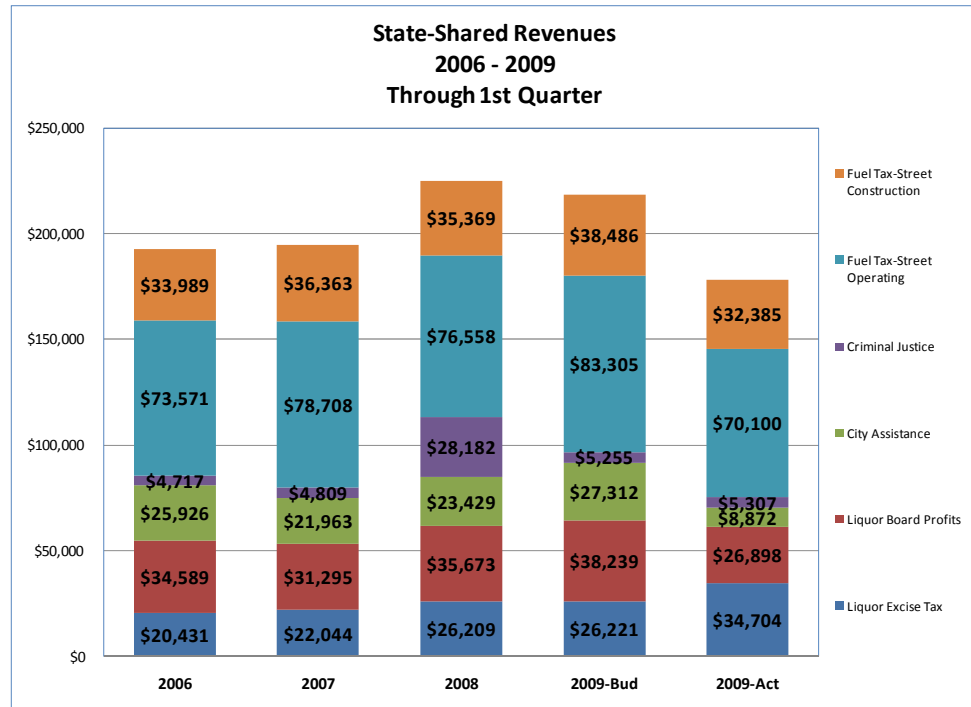


The control budget estimates gambling tax collections will be \$350,000 per year lower than the adopted budget (\$1,506,587) as opposed to the \$250,000 reduction that was projected in January. This reduction is due to the closure of a casino coupled with the slowdown of activity at the other casinos.

Of particular concern is the City's reliance on gambling taxes for basic municipal services – an estimated total of 10% of General Fund revenue and 8% of total operating revenue. Because of the uncertainty of this revenue source, as is evident by the closure of a casino and the current economic downturn, we need to look for other revenue; otherwise municipal services will be impacted.

State-Shared Revenues

The following graph and table presents a comparison of State-Shared revenues received for first quarter between 2006 and 2009. State-shared revenues totaled \$178,266 through first quarter 2009, which is \$40,550, or 18.5% below the budget estimate (\$218,816). The decrease is attributable again to current economic conditions.



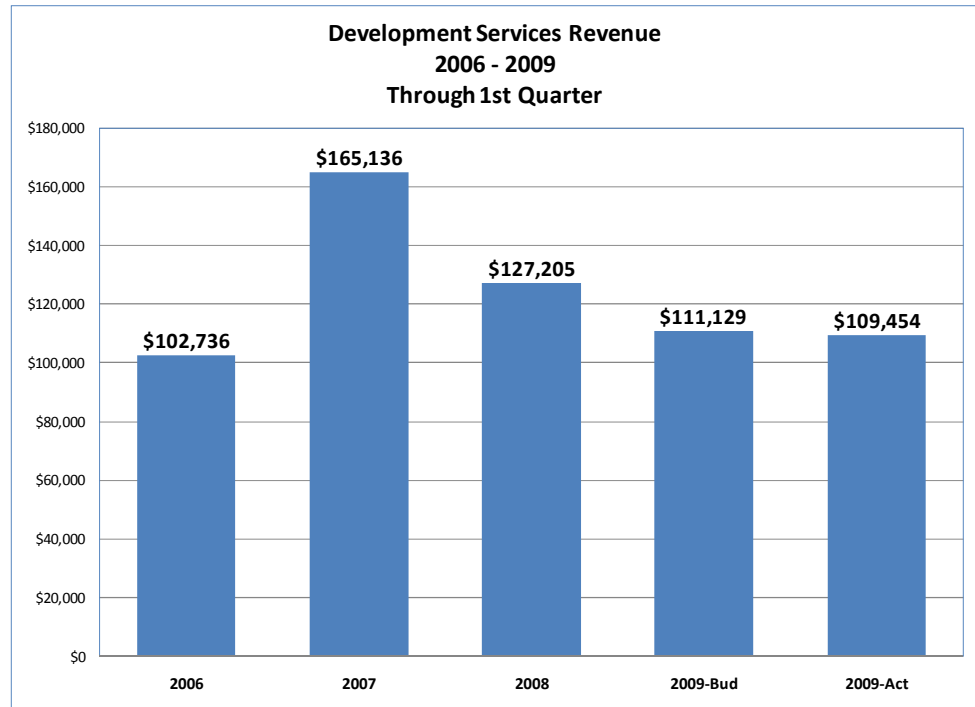
For example, City Assistance funds come from a portion of the State's real estate excise tax. The State's REET collections have been negatively impacted due to the current economic conditions – the result is less City Assistance funds.

Similarly, fuel tax dollars that are required by state law to be used for street operations and construction are below projections due to a decrease in fuel consumption. However, the decrease in fuel tax receipts is more than offset with additional revenues dedicated specifically for street construction (e.g., unanticipated state & federal funds and investment income).

State-Shared Revenues Source	2006	2007	2008	2009		Change (bud vs. act)	
				Budget	Actual	\$	%
General Fund							
Liquor Excise Tax	\$ 20,431	\$ 22,044	\$ 26,209	\$ 26,221	\$ 34,704	\$ 8,484	32.4%
Liquor Board Profits	34,589	31,295	35,673	38,239	26,898	(11,341)	-29.7%
City Assistance	25,926	21,963	23,429	27,312	8,872	(18,440)	-67.5%
Criminal Justice	4,717	4,809	28,182	5,255	5,307	53	1.0%
Total General Fund	\$ 85,663	\$ 80,111	\$ 113,493	\$ 97,025	\$ 75,781	\$ (21,244)	-21.9%
Street Operating Fund							
Fuel Tax-Street Operating	73,571	78,708	76,558	83,305	70,100	(13,205)	-15.9%
Total Street Operating Fund	\$ 73,571	\$ 78,708	\$ 76,558	\$ 83,305	\$ 70,100	\$ (13,205)	-15.9%
Street Construction Fund							
Fuel Tax-Street Construction	33,989	36,363	35,369	38,486	32,385	(6,101)	-15.9%
Total Street Construction Fund	\$ 33,989	\$ 36,363	\$ 35,369	\$ 38,486	\$ 32,385	\$ (6,101)	-15.9%
Total State-Shared Revenue	\$ 193,223	\$ 195,182	\$ 225,420	\$ 218,816	\$ 178,266	\$ (40,550)	-18.5%

Development Services Fees

The following graph and table illustrate development services activity to include building permits, engineering, and plan check/zoning fee activity for first quarter between 2006 and 2009. Overall, development services fees collected in first quarter 2009 totaled \$109,454, which is 1.5% below the



budget estimate (\$111,129). Compared with 2008 activity (\$127,205), development services fee revenue has decreased \$17,751 or 14.0%. Historically, the first quarter of each year is our slowest month for this type of activity.

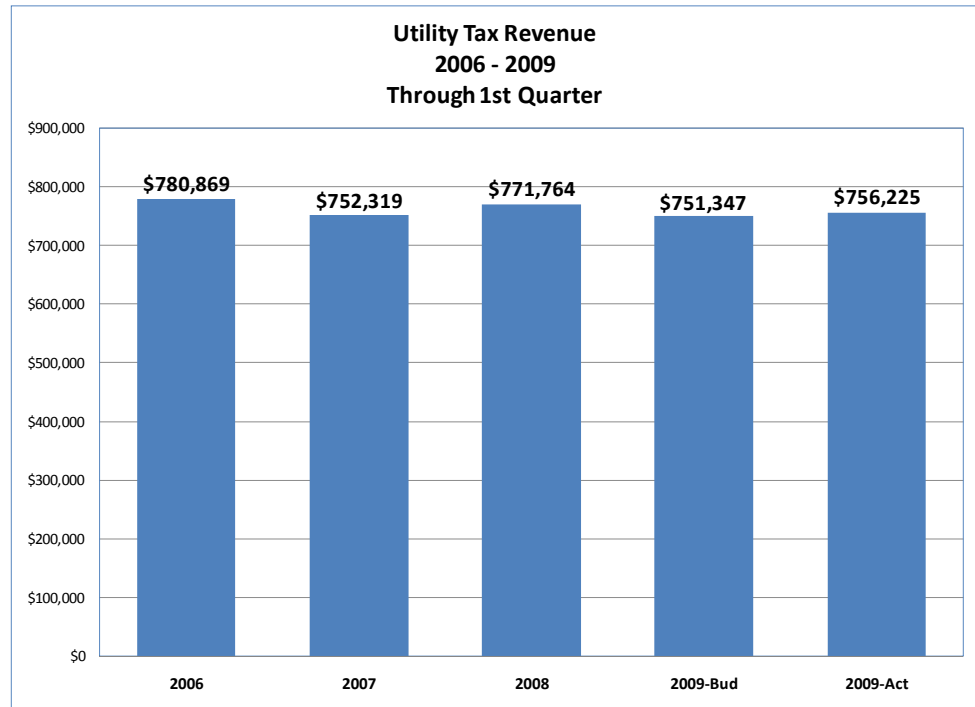
Development Services Source	2006	2007	2008	2009		Change (bud vs. act)	
				Budget	Actual	\$	%
Building Permits	\$ 44,504	\$ 53,587	\$ 43,101	\$ 42,111	\$ 47,851	\$ 5,740	13.6%
Engineering Fees	26,840	58,465	25,264	31,320	10,685	(20,635)	-65.9%
Plan Check/Zoning Fees	31,392	53,084	58,840	37,698	50,918	13,220	35.1%
Total Development Services	\$ 102,736	\$ 165,136	\$ 127,205	\$ 111,129	\$ 109,454	\$ (1,675)	-1.5%

While we have seen a slowdown in development activity (and the revenue that comes with it), our development services program is achieving its financial objectives through first quarter 2009. However, if this changes, temporary reductions may have to be implemented in this area as well since these program costs are funded primarily with development fees and the General Fund currently does not have the financial capacity to subsidize these costs.

On the upside, there are approximately forty development projects that are on the horizon for Mountlake Terrace. The anticipated level of activity—even in an economic downturn—indicates: 1) the importance of code updates that the City Council has made during the last two years; and 2) the strong interest in the community, including the future Town Center/Downtown. The centerpiece of the city's economic development strategy is the downtown where private investment and nearby public facilities will bring new relevance and vitality to the community.

Utility Tax

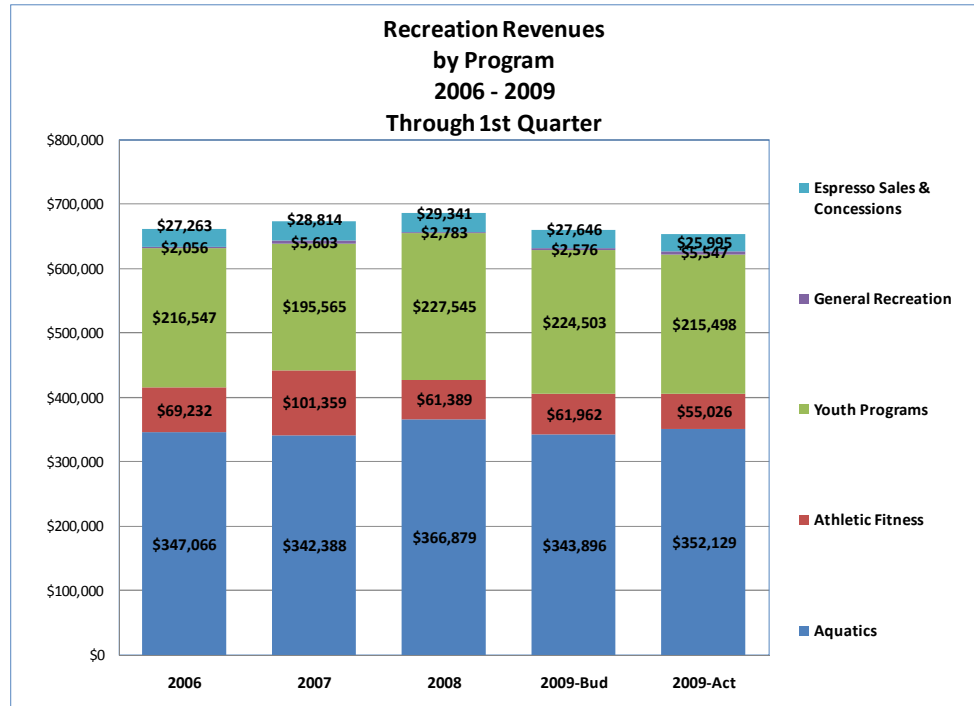
The following graph and table summarize utility tax revenue collections for first quarter 2006 through 2009. In first quarter 2009, utility tax collections totaled \$756,225, which is \$4,879, or 0.6% above the budget estimate (\$751,347). Compared to 2008 first quarter activity (\$771,764), utility tax collections have decreased \$15,539, or 2.0%.



Utility Tax Source	2006	2007	2008	2009		Change (bud vs. act)	
				Budget	Actual	\$	%
Gas	\$ 102,301	\$ 121,537	\$ 110,875	\$ 77,134	\$ 132,775	\$ 55,642	72.1%
Solid Waste	55,471	58,242	57,409	52,383	50,181	(2,202)	-4.2%
Telephone	215,670	167,151	181,395	224,601	160,430	(64,171)	-28.6%
Electricity	203,144	220,377	218,777	174,485	214,119	39,635	22.7%
Cable	94,367	49,315	51,660	51,253	49,664	(1,589)	-3.1%
City Utilities	109,916	135,697	151,648	171,492	149,056	(22,436)	-13.1%
Total Utility Tax Revenues	\$ 780,869	\$ 752,319	\$ 771,764	\$ 751,347	\$ 756,225	\$ 4,879	0.6%

Recreation Program

The following graph and table summarize recreation activity for first quarter 2006 through 2009. In first quarter 2009, recreation fee collections totaled \$654,195, which is \$6,388, or 1.0% below the budget estimate (\$660,583).



Compared to first quarter 2008 activity (\$687,937), recreation fee collections have

slowed by \$33,742, or 4.9%. This is primarily attributable to the economic slowdown and the closure of the pool for two weeks work on the liner earlier this year.

However, the slowdown in revenue collections has been more than offset with program expenditure savings, which are under the budget estimate by \$87,203 or 10.6%. In addition, the program's cost recovery ratio increased to 83.7% in first quarter 2009 from 76.0% in 2008, resulting in a lower General Fund subsidy.

Recreation Program Source & Uses	2006	2007	2008	2009		Change (bud vs. act)	
				Budget	Actual	\$	%
<i>Recreation Fees</i>							
Aquatics	\$ 347,066	\$ 342,388	\$ 366,879	\$ 343,896	\$ 352,129	\$ 8,233	2.4%
Athletic Fitness	69,232	101,359	61,389	61,962	55,026	(6,936)	-11.2%
Youth Programs	216,547	195,565	227,545	224,503	215,498	(9,005)	-4.0%
General Recreation	2,056	5,603	2,783	2,576	5,547	2,971	115.3%
Espresso Sales & Concessior	27,263	28,814	29,341	27,646	25,995	(1,651)	-6.0%
Program Fees	\$ 662,164	\$ 673,729	\$ 687,937	\$ 660,583	\$ 654,195	\$ (6,388)	-1.0%
<i>Recreation Program</i>							
Aquatics	\$ 372,151	\$ 405,216	\$ 439,614	\$ 392,148	\$ 350,914	\$ (41,234)	-10.5%
Athletic Fitness	74,443	58,086	79,174	88,586	55,397	(33,189)	-37.5%
Youth Programs	256,074	253,608	292,213	336,776	323,478	(13,298)	-3.9%
General Recreation	5,665	5,721	5,038	4,926	5,444	519	10.5%
Debt Service	46,250	46,250	46,250	46,250	46,250	-	0.0%
Program Costs	\$ 754,583	\$ 768,881	\$ 862,289	\$ 868,686	\$ 781,483	\$ (87,203)	-10.0%
General Fund Subsidy *	\$ (92,419)	\$ (95,152)	\$ (174,352)	\$ (208,103)	\$ (127,288)	\$ 80,815	-38.8%
Cost Recovery Ratio	87.8%	87.6%	79.8%	76.0%	83.7%	7.7%	10.1%

Other General Government Revenues

- Property tax revenues collections are consistent with the budget estimate, coming in above the budget estimate by \$21,146 or 2.2%.
- Admission taxes total \$21,109 through first quarter 2009, which is only 15.8% of the adopted budget and is indicative of the closure of the Regal Mountlake 9 Theatre earlier this year. However, this facility reopened in late May after undergoing a significant remodeling as a Cinebarre. This new business is expected to generate both admission taxes and sales tax from the food service.
- Transport fees, which represent financial reimbursement from Medicaid, Medicare, and private insurance policies for the cost of providing medically necessary ambulance transportation was below budgetary estimates by \$20,873 or 20.9%.
- Fines and forfeitures revenues, which are comprised primarily of traffic infractions and criminal citations are below budgetary estimates by \$8,629 or 13.3%. However, this revenue collection is higher than 2008 (\$53,131) and 2007 (\$45,910) first quarters.
- General Fund investment revenues total \$60,137, which is \$137 or 0.2% above the budget estimate. It is the policy of the City of Mountlake Terrace that funds will be invested in only those investments permitted by Federal and State law as it relates to public funds. The primary objectives for the City's investment activities are (listed in the order of priority): safety, liquidity and yield.

Capital Improvement Funds

The City's Capital Improvement Funds, which include street and sidewalk construction, facilities, parks improvements, information technology investments, and traffic control investments, are accounted for in the following funds: Real Estate Excise Tax (REET); Street Construction; and Capital Improvement.

Sources & Uses	2009						Change (bud vs. act)	
	2006	2007	2008	Budget			\$	%
				Annual	1st Qtr	Actual		
Capital Improvement Funds								
Beginning Fund Balances	\$ 3,575,170	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 5,623,137	\$ 5,623,137	\$ -	0.0%
Operating Revenues								
Real Estate Excise Tax	966,611	693,101	486,364	600,000	101,378	72,952	(28,426)	-28.0%
Motor Vehicle Fuel Tax	150,104	156,166	149,373	153,943	38,486	32,385	(6,101)	-15.9%
Cable PEG Fees	16,796	16,988	16,916	17,000	4,250	4,282	32	0.8%
Transportation Impact Fees	-	-	2,334	20,000	-	-	-	n/a
Park Impact Fees	-	-	4,224	170,000	-	-	-	n/a
Investment Interest/Other	165,996	282,880	257,504	157,820	39,455	70,949	31,494	79.8%
Subtotal Operating Revenue	1,299,507	1,149,135	916,715	1,118,763	183,569	180,568	(3,001)	-1.6%
Other Financing Sources								
Transfer In: General Fund	741,756	2,126,000	356,000	500,000	125,000	125,000	-	0.0%
Transfer In: Street Operating Fund	419,407	-	-	-	-	-	-	n/a
Transfer In: REET Fund	155,000	1,775,589	228,000	564,373	141,093	141,093	-	0.0%
Transfer In: Strategic Reserve Fund	-	-	-	300,000	75,000	75,000	-	0.0%
Transfer In: Accum Leave Reserve Fund	-	500,000	-	-	-	-	-	n/a
Transfer In: Facilities Construction Fund	11,722	299,708	-	-	-	-	-	n/a
BAN Financing	-	-	-	675,144	-	-	-	n/a
Grants	398,257	172,558	118,853	1,245,995	-	-	-	n/a
Subtotal Other Financing Sources	1,726,142	4,873,855	702,853	3,285,512	341,093	341,093	-	0.0%
Total Capital Improvement Funds	\$ 6,600,819	\$ 10,620,305	\$ 8,361,147	\$ 10,027,412	\$ 6,147,799	\$ 6,144,798	(3,001)	0.0%
Capital Program								
Overlay Program	\$ 881,419	\$ 483,158	\$ 474,248	\$ 2,088,321	\$ 156	\$ 156	-	0.0%
Chip & Slurry Seal Program	211,091	155,610	236,245	194,200	-	-	-	n/a
ADA Sidewalk Program	-	-	-	102,000	-	-	-	n/a
Traffic Calming Program	1,695	5,995	15,152	25,848	-	-	-	n/a
Bicycle Route Program	-	-	-	41,000	-	-	-	n/a
Sidewalk Program	48,175	294,480	55,067	267,043	-	-	-	n/a
Transportation Plan	-	75,057	-	-	-	-	-	n/a
Traffic & Signal Control Program	182,470	-	26,072	849,091	15,619	15,619	-	0.0%
Interurban Trail Link	39	4,681	150,256	21,444	-	-	-	n/a
Street Reconstruction	8,145	13,659	16,960	1,899,676	27,202	27,202	-	0.0%
Engineering Services	87,000	184,455	238,244	179,303	74,333	74,333	-	0.0%
Capital-Artwork	-	-	7,500	17,500	7,500	7,500	-	0.0%
Capital-Information Technology	65,856	144,111	166,196	372,542	59,498	59,498	-	0.0%
Capital-Community & Economic Developm	-	-	123,940	14,531	-	-	-	n/a
Capital-Property Management	54,870	150,881	481,385	382,860	102,236	102,236	-	0.0%
Capital-Temporary City Hall	-	-	-	675,144	67,797	67,797	-	0.0%
Capital-Parks	-	114,128	280,419	194,400	1,859	1,859	-	0.0%
Capital-Recreation	29,182	13,719	24,870	25,900	8,088	8,088	-	0.0%
Capital-Police	81,226	-	71,206	122,430	29,024	29,024	-	0.0%
Capital-Future Investments	-	320,953	-	-	-	-	-	n/a
Subtotal Other Financing Uses	1,651,168	1,960,887	2,367,760	7,473,233	393,312	393,312	-	0.0%
Transfer Out (Debt Service & CIP)	352,336	1,917,839	370,250	1,225,986	306,496	306,496	-	0.0%
Total Capital Improvement Funds	\$ 2,003,504	\$ 3,878,726	\$ 2,738,010	\$ 8,699,219	\$ 699,808	\$ 699,808	-	0.0%
Fund Balances								
Designated/Reserved:								
P.E.G. (Cable Fees)	\$ 32,309	\$ 37,476	\$ 47,886	\$ 31,392	\$ 52,086	\$ 52,086	-	0.0%
Transportation Impact Fees	-	-	2,334	31,000	2,334	2,334	-	0.0%
Park Impact Fees	56,213	56,213	10,110	174,224	10,110	10,110	-	0.0%
Capital Improvements	4,508,793	6,647,890	5,562,807	1,091,577	5,383,461	5,380,460	(3,001)	-0.1%
Total Ending Fund Balances	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 1,328,193	\$ 5,447,991	\$ 5,444,990	\$ (3,001)	-0.1%

Key 2009 Capital Investment Projects

52nd/53rd Avenues Water Main Construction: Already underway, this project includes the installation of about 8,000 feet of water main, new hydrants and new water services. The construction extends from 212th to 230th and follows a route in 52nd between 212th and 226th; then through Terrace Creek Park to the Recreation Pavilion; then south along 53rd to 230th; then east to 52nd. The north half of the project is being completed first so that the 52nd Avenue West Reconstruction Project, from 212th to 220th, can proceed this summer. Construction will be complete in August.

52nd Avenue W Reconstruction Project (212th to 220th): This project provides for milling the street surface, replacing failed pavement, and paving an asphalt concrete overlay. Other improvements include constructing sidewalk ramps, replacing deteriorated curb and sidewalk, making storm and sewer repairs, installing new traffic signs, and restriping the street to add bicycle lanes. The project is funded, in part, by the American Recovery and Reinvestment Act, the so-called “economic stimulus package”. Construction will begin in July.

2009 Chip Seal Program: Residential streets totaling 2.5 miles in two areas will be chip sealed in this year’s pavement preservation program. One area is bounded by 222nd, 228th, 44th and 48th. The other area is east of Cedar Way and south of 228th adjacent to Cedar Plaza. Construction will take place in July and August.

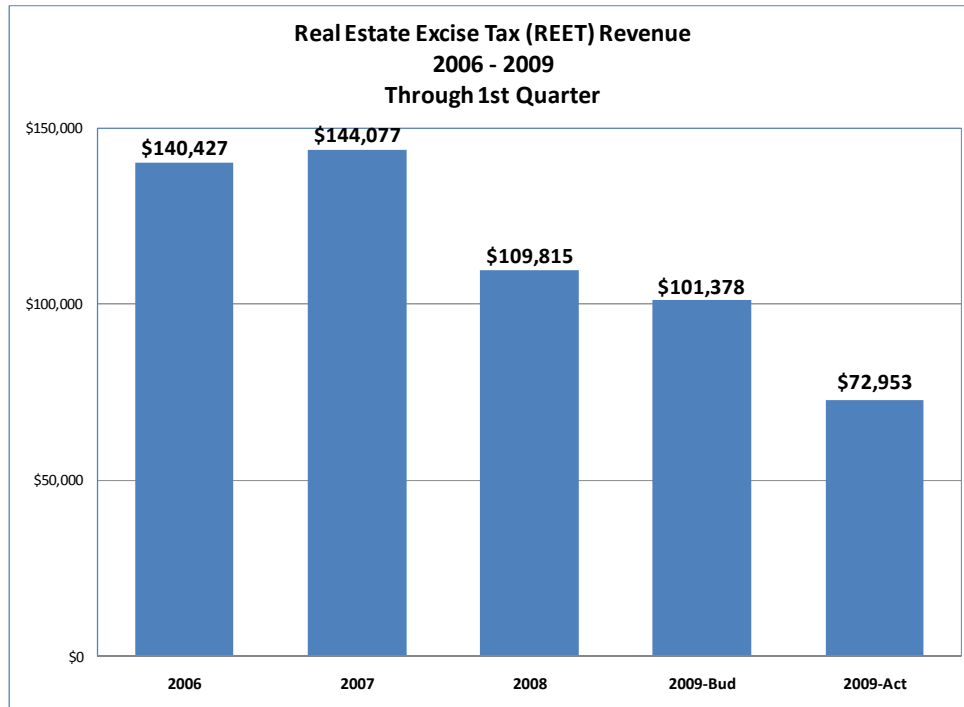
244th Street SW Overlay: This is a joint jurisdiction project with the City of Shoreline to repave 244th Street from the east approach of 56th to Ballinger Way. The first phase included making storm system repair and constructing new sidewalk ramps and was completed in May. In the second phase, the existing pavement will be milled, failed pavement replaced, and an asphalt concrete overlay paved. This work is scheduled to begin in July.

230th Street SW Reconstruction Project: The reconstruction will include two travel lanes, two 5’ wide bike lanes, 5’ wide sidewalks on both sides, and an intermittent 8’ wide parking lane along the street. The improvements include sidewalk ramps, drainage improvements, a revised vertical street profile (between 61st Avenue and the I-5 bridge) to improve sight distance, pavement markings, and street trees. Lastly, a water main will be replaced under the roadway in accordance with the city’s comprehensive water system plan. Construction is scheduled to begin this summer.

214th & 44th Traffic Signal: The new signal will enhance safety and increase capacity of 44th Avenue West and 214th Street SW. The project includes interconnecting the new signal with the existing signals at 212th Street SW and 217th Street SW so all three will operate in coordination. Other improvements at the intersection include new sidewalk ramps, uniform street lighting, and consolidation of the two driveways into a single driveway on the west approach to the signal. Construction is scheduled to begin late summer.

223rd & 42nd Sidewalk: The project will provide a new sidewalk on south 223rd Street SW and on west 42nd Place W between the traffic signal at 44th Avenue W and the walkway to Cedar Way Elementary School. These improvements will also eliminate a missing link in the sidewalk network and create a continuous pedestrian access throughout the neighborhood. Construction is scheduled to begin in later half of 2009.

Real Estate Excise Taxes



The following graph and table illustrate collection history for the first and second 1/4 percent real estate excise taxes (REET). The table and graph both reflect the cyclical variation in this revenue source. During first quarter 2009, REET revenues (\$72,953) were under budgetary estimates (\$101,378) by \$28,425 or 28.0%. Compared with first

quarter 2008 activity (\$109,815), REET revenues have decreased \$36,862 or 33.5%. This decline is reflective of the slowing real estate market. Historically, REET collections pick up during the warmer months, May through August.

Real Estate Excise Tax Month	2006	2007	2008	2009		Change (bud vs. act)	
				Budget	Actual	\$	%
January	\$ 40,033	\$ 47,661	\$ 40,985	\$ 28,096	\$ 45,587	\$ 17,491	62.3%
February	35,329	34,742	34,647	29,485	11,905	(17,580)	-59.6%
March	65,065	61,674	34,183	43,797	15,461	(28,336)	-64.7%
April	64,087	66,041	38,536	44,567			
May	67,692	88,856	128,309	56,840			
June	213,025	112,523	43,814	77,124			
July	135,618	72,816	33,147	77,188			
August	63,927	56,712	28,679	52,806			
September	72,803	41,230	47,809	50,043			
October	110,243	39,594	28,369	54,528			
November	51,404	43,308	12,471	44,372			
December	47,385	27,944	15,415	41,154			
Total REET	\$ 966,611	\$ 693,101	\$ 486,364	\$ 600,000	\$ 72,953	\$ (28,425)	-28.0%

Our REET revenue estimate for 2009 totals \$600,000 and is allocated specifically for capital projects. The good news is that even if we do not meet this revenue objective, our CIP program will not suffer because of ARRA funds and other grant revenue we expect to receive in 2009 that was not anticipated when the budget was prepared last fall.

The one bit of silver lining in this economic downturn is that the bidding climate for public construction projects is very favorable. Construction costs have dropped significantly, primarily because of plunging fuel costs, cheaper materials, and more competitive bidding. It's the only real upside to the economic forces that currently are stressing our finances. In addition, the City has been successful in obtaining the following federal and state funds that we have or are

expected to receive in the coming year – totals more than \$2.441 million dedicated for much needed capital investments:

- \$500,000 - FY 2008 federal appropriations for phase 1 of downtown water main project (contract awarded earlier this year – water utility fund);
- \$500,000 - FY 2009 appropriations for phase 2 of downtown water main project (water utility fund);
- \$1,000,000 - ARRA 2009 (federal stimulus package) in support of 52nd Avenue Reconstruction/Overlay project (contract awarded on June 29);
- \$245,995 - State TIB funds in support of 230th Street Reconstruction project (sidewalks); and
- \$195,254 - CDBG funds in support of sidewalk project adjacent to Jack Long Park (222nd Street SW between 58th and 60th Avenues W).

Utility Funds

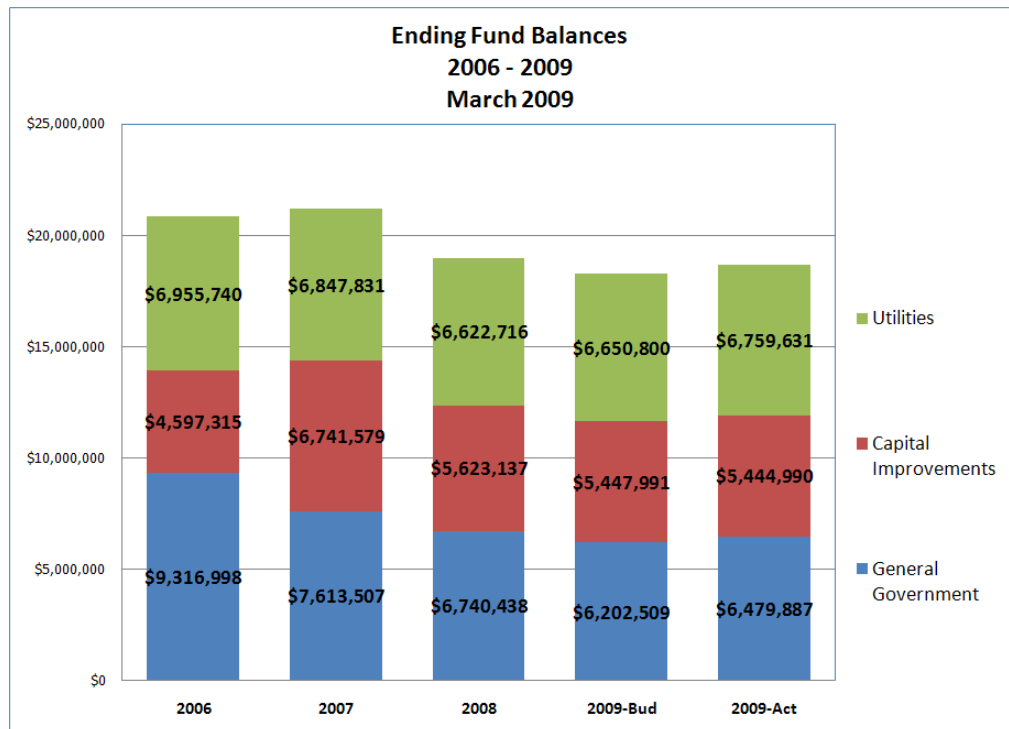
The City operates three utilities: storm water, sewer, and water. Each utility is a stand-alone enterprise fund financed with user fees collected from the customers of each system (i.e., residential property owners, commercial property owners, etc.). These revenue sources are collected to finance both the ongoing maintenance and operations of each system, as well as construction projects in support of system rehabilitation and expansion.

- Storm Water: Storm Water operating revenues are exceeding budgetary estimates by \$6,089 or 2.9% through first quarter while operating expenditures are under budgetary estimates by \$27,230 or 11.0% due primarily to lower than anticipated maintenance costs.
- Water: Water operating revenues are exceeding budgetary estimates by \$4,878 or 0.8% through first quarter while operating expenditures are under budgetary estimates by \$53,247 or 10.0% due primarily to lower than anticipated wholesale water costs.
- Sewer: Sewer operating revenues are exceeding budgetary estimates by \$1,161 or 0.2% through first quarter while operating expenditures are under budgetary estimates by \$16,226 or 2.6% due primarily to lower than anticipated maintenance costs.

Sources & Uses	2009						Change (bud vs. act)	
	2006	2007	2008	Budget			\$	%
				Annual	1st Qtr	Actual		
Utility Funds								
Beginning Fund Balances	\$ 7,286,594	\$ 6,847,767	\$ 6,936,129	\$ 6,622,716	\$ 6,622,716	\$ 6,622,716	\$ -	0.0%
Operating Revenues								
Storm Water	917,421	931,680	1,018,450	1,159,089	255,000	261,089	6,089	2.4%
Water	2,651,866	2,529,983	2,755,605	2,794,204	586,783	591,661	4,878	0.8%
Sewer	2,889,815	2,812,790	3,056,971	3,241,029	713,026	714,187	1,161	0.2%
Subtotal Operating Revenues	6,459,102	6,274,453	6,831,026	7,194,322	1,554,809	1,566,937	12,128	0.8%
Operating Expenditures								
Storm Water	847,183	906,074	909,589	1,119,863	246,370	219,140	(27,230)	-11.1%
Water	2,327,798	2,309,016	2,273,928	2,537,923	532,964	479,717	(53,247)	-10.0%
Sewer	2,317,565	2,445,042	2,606,838	2,841,894	625,217	608,991	(16,226)	-2.6%
Debt Service	105,010	105,687	88,882	120,900	-	-	-	n/a
Subtotal Operating Expenditures	5,597,556	5,765,819	5,879,237	6,620,580	1,404,550	1,307,848	(96,702)	-6.9%
Operating Surplus (Deficit)	861,546	508,634	951,789	573,742	150,258	259,089	108,831	72.4%
Other Financing Sources								
Grants and PWTF	-	291,200	162,622	477,000	1,685	1,685	-	0.0%
Loan Proceeds	-	-	-	2,500,000	-	-	-	n/a
Transfer from Utility Funds	1,717,093	3,301,158	4,852,924	120,900	30,225	30,225	-	0.0%
Subtotal Other Financing Uses	1,717,093	3,592,358	5,015,546	3,097,900	31,910	31,910	-	0.0%
Other Financing Uses								
Construction Projects	1,300,197	904,846	1,516,706	5,670,974	154,084	154,084	-	0.0%
Transfer to Utility Funds	1,609,296	3,196,082	4,764,042	-	-	-	-	n/a
Subtotal Other Financing Uses	2,909,493	4,100,928	6,280,748	5,670,974	154,084	154,084	-	0.0%
Fund Balances								
Reserves (15% of Oper Exp)	-	-	913,941	974,949	974,949	974,949	-	0.0%
Designated/Reserved:								
Storm Water	1,704,626	1,514,300	1,098,414	2,122,972	1,024,742	1,058,061	33,319	3.3%
Water	2,951,524	3,260,139	2,576,703	292,473	2,552,269	2,610,394	58,125	2.3%
Sewer	2,148,133	2,073,392	2,033,658	1,232,990	2,068,616	2,086,002	17,386	0.8%
Debt Service	151,457	-	-	-	30,225	30,225	-	0.0%
Undesignated/Unreserved	-	-	-	-	-	-	-	n/a
Total Ending Fund Balances	\$ 6,955,740	\$ 6,847,831	\$ 6,622,716	\$ 4,623,384	\$ 6,650,800	\$ 6,759,631	\$ 108,831	1.6%

Ending Fund Balances/Reserves

The following graph and table illustrates the City's ending fund balances between 2006 and first quarter 2009. The fund balances are segregated into three major components; reserved/designated (such as Strategic Reserve), contingency and unreserved/undesignated. In summary, we



continue to maintain strong reserves consistent with our financial policies.

Ending Fund Balances All Funds	2006	2007	2008	2009		Change (bud vs. act)	
				Budget	Actual	\$	%
<i>General Government</i>							
Reserved/Designated							
Reserves (5% of GF Oper E	\$ 694,768	\$ 672,383	\$ 729,525	\$ 697,005	\$ 728,201	\$ 31,196	4.5%
Strategic Reserve (5% of GF	916,507	959,753	995,309	932,128	932,128	-	0.0%
Reserved/Designated							
Economic Downturn	-	-	-	487,731	487,731	-	0.0%
Encumbrances	402,437	179,672	185,553	355,668	427,102	71,434	20.1%
Equipment Replacement &	2,294,889	2,307,593	2,345,407	2,082,263	2,229,957	147,694	7.1%
Hotel/Motel-Tourism	35,922	32,907	34,979	40,500	40,500	-	0.0%
Solid Waste-Billing Exem	58,359	61,628	40,531	34,530	34,530	-	0.0%
Accumulated Leave Reser	761,751	283,723	234,381	240,381	237,315	(3,066)	-1.3%
Subtotal Reserved/Designated	5,164,633	4,497,659	4,565,685	4,870,206	5,117,464	247,258	5.1%
Contingency (2% of GF Oper	-	-	-	123,702	139,178	15,476	12.5%
Undesignated/Unreserved (on	4,152,365	3,115,848	2,174,753	1,208,601	1,223,245	14,644	1.2%
Total General Governmen	\$ 9,316,998	\$ 7,613,507	\$ 6,740,438	\$ 6,202,509	\$ 6,479,887	\$ 277,378	4.5%
<i>Capital Improvement</i>							
Reserved/Designated							
P.E.G. (Cable Fees)	32,309	37,476	47,886	52,086	52,086	-	0.0%
Transportation Impact Fee	-	-	2,334	2,334	2,334	-	0.0%
Park Impact Fees	56,213	56,213	10,110	10,110	10,110	-	0.0%
Capital Improvements	4,508,793	6,647,890	5,562,807	5,383,461	5,380,460	(3,001)	-0.1%
Total Capital Improvemen	\$ 4,597,315	\$ 6,741,579	\$ 5,623,137	\$ 5,447,991	\$ 5,444,990	\$ (3,001)	-0.1%
<i>Utilities</i>							
Reserves (15% of Oper Exp	-	-	913,941	974,949	974,949	-	0.0%
Designated/Reserved:							
Storm Water	1,704,626	1,514,300	1,098,414	1,024,742	1,058,061	33,319	3.3%
Water	2,951,524	3,260,139	2,576,703	2,552,269	2,610,394	58,125	2.3%
Sewer	2,148,133	2,073,392	2,033,658	2,068,616	2,086,002	17,386	0.8%
Debt Service	151,457	-	-	30,225	30,225	-	n/a
Total Utilities	\$ 6,955,740	\$ 6,847,831	\$ 6,622,716	\$ 6,650,800	\$ 6,759,631	\$ 108,831	1.6%
Total Ending Fund Balances	\$20,870,053	\$21,202,917	\$18,986,291	\$18,301,300	\$18,684,508	\$ 383,208	2.1%

Reserves are an important indicator of the City's fiscal health. They effectively represent "savings accounts" that are established to meet unforeseen budgetary needs. The City's reserves are strong with financial resources set aside to accommodate unexpected operational changes, legislative impacts, or other economic events affecting the City's operations. They also represent funds set aside for key public improvements and investments, particularly in streets, traffic, parks, and utilities.

Reserved/Designated Ending Fund Balances: The first component of ending fund balances, totaling \$5,117,464 at the end of first quarter 2009, are those moneys that have been earmarked for a strategic reserve fund (\$932,128), equipment replacement reserves (\$2,229,957), accumulated leave reserves (\$237,315), and General Fund reserves totaling 5% of operating expenditures (\$728,201). This reserve designation also include encumbrances from prior years (\$427,102), funds dedicated solely for tourism purposes (\$40,500), and solid waste billing exemptions (\$34,530).

Lastly, this category sets aside \$487,731 based on the action strategies, preventative measures and corresponding control budget that has been implemented to mitigate the economic downturn. These funds are set aside to offset a further decline of general fund revenues (see analysis below).

The purpose of the strategic reserve is to provide some fiscal means for the City to respond to potential adversities such as public emergencies, natural disasters, or similar major, unanticipated events.

Equipment replacement reserves are collected through charges to the City's General Fund and Utility Funds, permit the accumulation of cash for future replacement of the City's equipment and vehicles to smooth out further budgetary impacts.

Also included in reserved/designated ending fund balances are operating reserves for the three utility funds that total 15% of total operating expenditures in the funds as well as utility funds reserved for construction projects. All Capital Fund balances are reserved for capital construction projects.

Contingency Reserve Ending Fund Balances: The second component of ending fund balances are those funds reserved for unanticipated future expenditures. For 2009, contingency reserves currently total \$139,178; however these funds were not allocated. The contingency reserve represent 2% of General Fund operating expenditures and are reserved within the General Fund to accommodate unexpected operational changes, legislative impacts, or other economic events affecting the City's operations that could not have been reasonably anticipated at the time the budget was prepared. The City Council determines how the contingency reserve is spent.

Unreserved/Undesignated Fund Balances: The unreserved/undesignated fund balance is the balance of net financial resources that are available for appropriation. This portion of funding is not legally restricted and is available to the Council for one-time appropriation. The current unreserved/undesignated fund balances in the General Fund are set aside for future capital investments and other one-time projects between 2009 and 2014.

Status of the 2009-2010 Biennial Budget

The 2009-2010 Biennial Budget adopted by Council in November 2008 was prepared and finalized before the full impact of the financial and credit market crisis was known. Despite the budget's conservative assumptions for revenue growth in 2009 and 2010, the tightening of credit in the past eight months has caused us to make our forecast even more conservative.

The adopted budget projected General Fund revenues to increase 1.7 percent in 2009 and 2.9 percent in 2010, meaning we have significantly tightened our budget to ensure we live within our means.

As is evident from our first quarter financial report, we have experienced even slower revenue collections than projected. For example, we now project gambling tax collections will decrease by \$350,000 per year as opposed to the \$250,000 reduction as projected in January from the closure of a casino coupled with the slowdown of activity at the other casinos.

This situation sheds light on a much larger issue in our budget: this is no longer a revenue problem or an expenditure problem; it is a core structural problem with the makeup of the community's revenue structure that needs to be addressed immediately rather than waiting. However, until such time as the economy rebounds, our only option to continue providing general government services with the revenue that is available is to continue to focus on the expenditure side of the income statement.

The good news is that we began implementing steps last year to mitigate the impact to ensure we meet our financial objectives in 2009 and these steps will continue indefinitely. After prioritizing our services based on life/health/safety, legal mandates, and Council goals and priorities, we are recommending that two Customer Service Specialist positions also be eliminated. The duties of these two positions will be assigned to employees in the Administrative Services Department who, according to an independent review earlier this year, have capacity to pick up the additional tasks. (A copy of the independent review titled Finance and Customer Service Staffing Analysis is attached.)

However, this does not mean that the two employees will be leaving the City. The employees in these two Customer Service Specialist positions will be encouraged to apply for other prioritized job openings in the City that occur through attrition or when the economy improves. This opportunity, which will include positions in utility maintenance and police will provide those two employees opportunities to remain as employees with the City.

The savings brought about our strategies currently in place coupled with the elimination of these two positions will help ensure that other municipal services (e.g., police, fire, parks, recreation, streets, and utilities) will not have to be reduced as well.

Action Strategies

The following action strategies and preventative approaches to managing our finances have been implemented to mitigate the downturn in our revenue collections for 2009 and into 2010 caused by the faltering economy.

- We have eliminated all discretionary spending, incurring costs related to basic services only (e.g., employee compensation; mandated training & certifications; basic services such as park maintenance, public safety, code enforcement, code compliance, ROW maintenance, & street sweeping; and community outreach and information such as newsletter, website, news releases). All other discretionary expenditures (i.e. supplies, travel, training, overtime, equipment, temporary help, COLAs for department directors, etc.) are on hold indefinitely.
- All other costs must be approved in advance after review by Finance Director and City Manager.
- All overtime hours must be reviewed and approved by the department director.
- Fleet and equipment purchases, which are proposed to total \$1.2 million in 2009, now only include essential vehicles and equipment. Non-essential purchases have been delayed until later in 2009 or perhaps 2010.
- Non-essential information technology, recreation, and park improvements will be delayed until later in 2009 or perhaps 2010.
- All current and future positions that are vacated by attrition (e.g., Management Analyst, Customer Service Specialist, Public Works Supervisor, and two part-time maintenance workers) will not be filled with the exception of police patrol vacancies.

- A vacant maintenance position in our Street Division is being filled in 2009 by employees from our Parks Division.
- The creation of lead workers in public works and parks & property management has resulted in not having to fill the Public Works Supervisor position.
- The contract for City Attorney services is being reduced to 2002 level of service.
- The Community Specialist position funded from the General Fund has been reduced to half-time (remaining half-time hours will be charged to non-General Fund activities based on workload availability).
- The Civil Engineer II position assigned to review private development projects has been temporarily assigned to work part-time on capital utility projects. This helps alleviate the project load on our engineering staff, while at the same time enabling us to charge one-half of this employee's time to utilities rather than the General Fund.
- Civic Center Utilities and Maintenance budget will be reduced reflecting utility and overhead savings because of the move to a temporary City Hall in July 2009.
- The success of our Engineering Department in obtaining grants for street projects (e.g., TIB, ARRA) has enabled us to reduce our General Fund contribution to the Street Construction Fund in 2009. As a side note, the only bit of silver lining in this economic downturn is that the bidding climate for public projects is very favorable. For example, construction costs have dropped significantly (e.g., recent water main project, ADA ramps project), primarily because of plunging energy costs and the global economic slowdown. However, these savings do not translate into ongoing savings in our General Fund since our CIP and construction projects are funded with either one-time funds that cannot be used for operations or are funded with revenue that are specific to CIP and construction projects and not eligible to fund General Fund operating activities (i.e., public safety, parks, development services, finance, etc.).
- The recent reduction in gas prices will provide some financial relief in that the current cost per gallon – less than \$3.00 – is less than the \$3.56 anticipated in the adopted budget.
- We are reviewing our purchasing partnership with the City of Lynnwood to determine if it would be less expensive to purchase Public Work supplies ourselves rather than through City of Lynnwood's Central Stores. Currently, we pay the City of Lynnwood a 15% markup to order and track the necessary supplies and materials we need in support of our water, sewer, storm water, street, traffic, fleet management and park programs. We may be able to use these savings to fund this service internally with existing staff resources rather than paying the City of Lynnwood.
- An employee "Healthcare Task Force" is looking at alternatives to reduce our ever-increasing employee healthcare costs. The City of Mountlake Terrace, like many employers is facing an urgent need to effectively contain the rise in employee health care costs, which average 10-15% annually. The Task Force's goal is not to just look at what our own costs

are, but to look at outside traditional approaches to employee benefits to find innovative ways to balance meeting employee health care needs and the need to control costs.

- In addition, because of the continued deterioration of the economy and the projected ongoing loss of a key General Fund operating revenue source, an additional step includes the elimination of two regular, full-time positions (effective October 1, 2009).

As reported earlier this year, we initiated a review to evaluate the relationship between resources and workload priorities in our Administrative Services Department, similar to the review of the Community & Economic Development Department in 2006/7 and Public Works (Fleet Management) in 2008. See attached Finance and Customer Service Staffing Analysis.

The report analyzed workload and performance data as well as detailed duties for 10 Administrative Services Department positions that include an operating budget of approximately \$1.0 million. In addition, the report gathered and analyzed comparative staffing and workload data from five cities that perform similar finance and customer service related functions.

The findings of this report indicate that the City of Mountlake Terrace has much lower workloads per employee and lower productivity workload compared to other cities and that two positions should be eliminated from the Finance and Customer Services Unit functions. While current staff has significant capacity to take on additional duties, there is not a need for additional services in the Administrative Services Department (e.g., overhead functions such as finance and human resources).

The analysis recommends the elimination of two FTEs. This will be accomplished by eliminating three Customer Service Unit Specialist positions (one which is vacant) and creating a new police support position that currently is under evaluation. Duties and responsibilities currently undertaken by the Customer Service Unit Specialist positions will be consolidated and reassigned within the Administrative Services Department.

While we had hoped to implement this recommendation through attrition and/or as part of a future budget process, the continued deterioration of the economy and decrease in gambling taxes has created a structural problem in our General Fund that needs to be addressed immediately.

The attached spreadsheet (Financial Forecast – General Fund Financing Balancing Strategy 2009-2014) presents by department some of the reductions we have already put in place – totals over \$652,000 in 2009 and over \$564,000 in 2010 for a grand total of approximately \$1,216,000 in the current biennium. Our approach not only addresses unanticipated revenue decreases, but also shows that we can address the revenue loss from the closing of one of our casinos in late November 2008 for the years 2009 through 2014.

Other Options

In addition to the strategies and preventative measures implemented above, we also reviewed and considered the following options, but set them aside for the time being:

Use of financial reserves or contingency accounts to temporarily maintain services:

Although the City has funds set aside for unanticipated events, my recommendation is to hold off on using these dollars at this time; we may need them in 2010 if the economy does not improve.

More importantly, the current economic climate has created a structural problem in our General Fund, meaning the use of reserves now does not address the ongoing loss of tax revenues. A continued focus of program prioritization (e.g., economic development, capital infrastructure investment, communication and outreach with the community, and key essential public services such as public safety, parks, development services, recreation, streets, and utilities) and cost efficiencies (e.g., action strategies and preventative approaches as outlined above) is the prudent way to ensure the city's financial health and continue to ensure that no services to our residents will need to be reduced. This current approach has proven successful thus far – it is better to be proactive versus reactive, otherwise we prolong the inevitable.

Reduction or elimination of capital improvement projects (i.e., street overlays, sidewalks, street reconstruction projects, etc.):

The city's capital improvement and construction projects are funded primarily with revenue specific funding sources coupled with some one-time funds that are dedicated specifically for these types of projects and cannot be used for General Fund operating activities (i.e., public safety, parks, development services, finance, etc.).

Although a reduction in street construction projects could temporarily save some money in the General Fund, doing so creates a higher cost in the long term because our roads and other infrastructure deteriorate at a faster rate as they age. In other words, if we delay or cancel our construction projects, we will have more expensive projects in the future. At the same time, delaying these projects at this time fails to take advantage of a very favorable bid climate, where our costs for street projects are as much as 30 percent lower than anticipated.

It will also eliminate our ability to leverage these resources with state and federal funds to continue to revitalize our basic infrastructure system (street overlays, sidewalks, street reconstruction projects, etc.).

Temporary Reductions in Development Services:

While we have seen a slowdown in development activity (and the revenue that comes with it), our development services program thus far is achieving its financial objectives. However, if this changes, temporary reductions may have to be implemented in this area as well since these program costs are funded primarily with development fees and the General Fund currently does not have the financial capacity to subsidize these costs.

Economic Development:

We will continue to focus on economic development, primarily in our commercial areas, including our downtown to generate additional property and sales taxes. However, given the current economic climate, it will take time for these projects to begin generating revenue to the City. Ultimately, the generation of new revenues from redevelopment and revitalization in our community, particularly our downtown will allow us to meet the growing demand for services.

Conclusion

Given the current economic volatility and as previously communicated during the budget process last year and earlier this year, we will continue to evaluate revenues and expenditures on a regular basis and allocate resources in a manner that ensures first and foremost that no services to our residents will need to be reduced, eliminated or cut.

This approach coupled with the action strategies and preventative approaches outlined above will allow us to meet our financial objectives for 2009 and deals with the structural problem created by the loss of a casino coupled with a continued deterioration of the economy and its negative impact on our operating revenues.

This approach will also allow us to continue to focus on the City Council and community's goals of ensuring the city's financial health and stability, economic development, capital infrastructure investment, communication and outreach with the community, and key essential public services such as public safety, parks, development services, recreation, streets, and utilities.

Attachments

- Attachment A - First Quarter 2009 Financial Report Detail
- Financial Forecast – General Fund Financing Balancing Strategy 2009-2014
- Finance and Customer Service Staffing Analysis